

Message Text

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PAGE 01 SANTIA 04736 081502Z

46

ACTION ARA-10

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

INR-07 NSAE-00 USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02

CIEP-01 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04

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FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 3867

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E. O. 11652: N/A

TAGS: EFIN, CI

SUBJECT: GOC MAKES SHARP DECREASES IN BUDGET

REF: SANTIAGO A-5

1. SUMMARY. GOC HAS PUBLISHED REVISED BUDGET FOR IMPLEMENTING FISCAL OBJECTIVES OF ECONOMIC RECOVERY PROGRAM. ESCUDO BUDGET WAS SLASHED BY NOMINAL 6.8 PERCENT AND DOLLAR BUDGET BY 8.6 PERCENT. BECAUSE OF VERY HIGH RATE OF INFLATION DURING FIRST HALF 1975, REAL DECREASE IN ESCUDEO EXPENDITURES MUCH GREATER THAN NOMINAL CUT. BUDGETS OF DEFENSE AND PUBLIC WORKS MINISTRIES TOOK LARGEST ABSOLUTE REDUCTIONS. END SUMMARY.

2. ON JUNE 30 GOC ANNOUNCED A MONDIFIED BUDGET WHICH REDUCED NOMINAL ESCUDO EXPENDITURES FOR 1975 BY 6.8 PERCENT AND DOLLAR EXPENDITURES BY 8.6 PERCENT. SINCE ORIGNAL BUDGET WAS BASED ON PROJECTED RATE OF INFLATION OF 50 PERCENT FOR ALL OF 1975, AND SINCE ACTUAL RATE DURING FIRST SIX MONTHS ALONE WAS MORE THAN TRIPLE THAT PROJECTION, DECREASE IN REAL ESCUDO EXPENDITURES IS MUCH GREATER THAN SUGGESTED BY SIZE OF NOMINAL CUT.

3. ASSUMING THE GOC HOLDS EXPENDITURES WITHIN THE NEW REVISED
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BUDGET AND THAT INFLATION FOR THE SECOND HALF OF THE YEAR

WILL BE 50 PERCENT (EMBASSY ESTIMATE), FISCAL ESCUDO EXPENDITURES IN REAL TERMS WOULD BE AT LEAST 50 PERCENT BELOW EARLIER PROJECTED SPENDING DURING THE SECOND HALF OF 1975. GOC ASSERTS THAT THERE WILL BE NO ADDITIONAL DISMISSALS OF GOVERNMENT EMPLOYEES BECAUSE OF BUDGET REDUCTIONS. IF THIS IS THE CASE (AND IF THE WAGE READJUSTMENT SYSTEM IS NOT MODIFIED), RE REDUCTION IN FISCAL EXPENDITURES WILL IMPLY ONLY MINUTE SUBSIDIZATION OF PUBLIC ENTERPRISES AND MINIMUM LEVEL OF CAPITAL EXPENDITURES.

4. BUDGETS OF DEFENSE (LARGEST IN BUDGET) AND PUBLIC WORKS MINISTRIES RECEIVED LARGEST ABSOLUTE SLASHES IN ESCUDO BUDGET. ALL MINISTRIES AND AUTONOMOUS GOVERNMENTAL BODIES, HOWEVER, SHARED IN FISCAL RETRENCHMENT PROGRAM. BUDGETS OF AGRICULTURE MINISTRY AND OF MINES MINISTRY TOOK LARGEST PERCENTAGE CUTS, ALTHOUGH DISTRIBUTION OF BUDGETARY RESOURCES IN PERCENTAGE TERMS REMAINS PRETTY MUCH AS IN ORIGINAL BUDGET.

5. DOLLAR BUDGET HAD RELATIVELY LITTLE FLEXIBILITY FOR SIZEABLE CUTS SINCE 70 PERCENT HAD BEEN APPROPRIATED FOR FOREIGN DEBT SERVICING. LARGEST REDUCTIONS WERE MADE IN BUDGETS OF DEFENSE (\$18.5 MILLION) AND ECONOMY MINISTRIES (\$15.6 MILLION). MOST OF LATTER WILL BE EFFECTED THROUGH DECREASES IN TRANSFERS TO CAPITAL BUDGETS OF STATE ENTERPRISES.

6. MORE DETAILED ASSESSMENT TO FOLLOW BY AIRGRAM.
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